Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

Message Text

LIMITED OFFICIAL USE

PAGE 01 ISLAMA 09016 01 OF 02 041453Z
ACTION NEA-10

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-05 H-01 INR-07
L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15
USIA-06 AID-05 EB-08 TRSE-00 STR-04 OMB-01 CEA-01
COME-00 FRB-03 XMB-02 OPIC-03 LAB-04 SIL-01 IGA-02
AGRE-00 IO-13 OES-07 /111 W
----------103432 041459Z /41
P R 041230Z SEP 77
FM AMEMBASSY ISLAMABAD
TO SECSTATE WASHDC PRIORITY 3685
INFO AMCONSUL KARACHI
AMCONSUL LAHORE
AMCONSUL PESHAWAR POUCH
AMEMBASSY NEW DELHI

LIMITED OFFICIAL USE SECTION 1 OF 2 ISLAMABAD 9016

E.O. 11652: N/A
TAGS: EGEN, EFIN, EAGR, EIND, PK
SUBJECT: INTERIM GOVERNMENT MAKES ECONOMIC POLICY

REF: ISLAMABAD 8979

SUMMARY: IN A SPEECH SEPT. 2, SECRETARY-GENERAL-IN-CHIEF, GHULAM ISHAQ KHAN FOLLOWED UP ON THE ECONOMIC PARTY OF GENERAL ZIA'S PRESS CONFERENCE (REFTEL). HE FOUND THE STATE OF PAKI-STAN'S ECONOMY TO BE SORRY, AND NOT QUICKLY IMPROVABLE, AND OUTLINED A BROAD RANGE OF MEASURES DESIGNED TO INCREASE PRODUCTIVITY, SPUR INVESTMENT AND INCREASE FOREIGN EXCHANGE RECEIPT.

MANY OF THE MEASURES AND STATEMENTS ARE REPETITIOUS OF EARLIER ANNOUNCEMENTS. IN GENERAL THE PACKAGE IS A PRAGMATIC ATTEMPT TO DEAL WITH IMMEDIATE PROBLEMS WITH THE LIMITED MANDATE OF A CARETAKER GOVERNMENT. THEY FOCUS ON AN IMMEDIATE
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 ISLAMA 09016 01 OF 02 041453Z

INJECTION OF RESOURCES AND CONFIDENCE INTO THE AGRICULTURAL AND MANUFACTURING SECTORS TO BE FOLLOWED, HOPEFULLY, BY A MORE COMPREHENSIVE ECONOMIC RESTRUCTURING BY A FUTURE, ELECTED GOVERNMENT. END SUMMARY

1. KHAN'S LITANY OF ECONOMC WOE PARALLELLED THAT RECITED IN THE JUNE BUDGET SPEECH. KHAN STATED THAT THE

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

NEGATIVE REAL GROWTH IN GNP, POOR BALANCE OF PAYMENTS AND NEGATIVE GROWTH IN PRODUCTIVITY WERE IN PART ATTRIBUTABLE TO LAST YEAR'S POOR COTTON CROP AND THE RECENT POLITICAL UNREST. HOWEVER, HE CAUTIONED THAT "IT WOULD BE INCORRECT TO SEEK REFUGE IN THE BELIEF THAT THE OUTCOME (OF LAST YEAR) WAS AN ABERRATION AND WOULD BE AUTOMATICALLY REVERSED." HE WENT ON TO SAY THAT "THE BASIC PROBLEMS OF THE ECONOMY ARE ACUTE" AND THAT "THE PROCESS FROM REVIVED TO SUSTAINED GROWTH WILL REQUIRE BASIC CHANGES THAT CAN ONLY BE IMPLEMENTED OVER A NUMBER OF YEARS." (WE FEEL THAT SUCH A REALISTIC AND CONCERNED ASSESSMENT OF THE ECONOMY INDICATES A SERIOUS DESIRE ON THE PART OF THE INTERIM GOVERNMENT TO MAKE AN ATTEMPT AT FIGHTING THE PRESENT ECONOMIC IMMOBILITY.)

2. AFTER DETAILING THE PRESENT ECONOMIC PICTURE KHAN WENT ON TO DESCRIBE THE FOLLOWING PROPOSALS:

A. AGRICULTURE: WHILE FOLLOWING THE GENERAL LINES OF THE 77 BUDGET SPEECH, KHAN OUTLINED A SERIES OF PROPOSALS DESIGNED TO INCREASE AGRICULTURAL IMPUTS DURING THE JULY-OCTOBER PERIOD. ACCELERATED DISTRIBUTION OF SEED AND FERTILIZER WILL BE ACCOMPANIED BY PLANT PROTECTION MEASURES AND PRICE SUPPORTS DESIGNED TO INCREASE THE OUTPUT OF COTTON, WHEAT AND OTHER FOOD CROPS. KHAN SAID THIS YEAR'S COTTON CROP WILL BE MUCH BETTER THAN LAST
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

YEAR'S BUT HE AVOIDED GIVING FIGURES. (DETAILS OF THIS PROGRAM WILL BE PROVIDED SEPTEL).

B. ALTHOUGH KHAN STATED THAT THE ADMINISTRATIVE PROCEDURES HAD ALREADY BEEN IRONED OUT, IT REMAINS TO BE SEEN WHETHER OR NOT THE TARGETS FOR DISTRIBUTION AND PRODUCTION CAN IN FACT BE ATTAINED.

3. TEXTILES: KHAN PLACED SPECIAL EMPHASIS ON THE TEXTILE INDUSTRY SINCE IT COMPRISES 26 PERCENT OF LARGE SCALE MANUFACTURING AND IS A LARGE SOURCE OF EMPLOYMENT. BESIDES SETTING A LOWER PRICE FOR GINNED COTTON WHICH WILL REQUIRE SUBSTANTIAL SUBSIDIES TO FARMERS TO BE FINANCED IN PART BY A PREVIOUSLY ANNOUNCED CUT IN NON-DEVELOPMENT BUDGET EXPENDITURES, KHAN OUTLINED A PROGRAM WHEREBY BANKS WOULD SUPERVISE MANAGEMENT REFORMS IN INEFFICIENT MILLS OR LIQUIDATE MILLS WITH HOPELESS FINANCIAL AND PHYSICAL PROBLEMS. NINE KARACHI MILLS WHICH SUFFERED SERIOUS DAMAGE DURING THE SUMMER RAINS WILL RECEIVE THREE-YEAR INTEREST FREE LOANS FOR REPAIRS AND RECONSTRUCTION. (FURTHER DETAILS PROVIDED SEPTEL.)

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

4. NATIONALIZED INDUSTRIES: KHAN EXPRESSED CONCERN ABOUT
THE ILL-DEFINED BOUNDARY BETWEEN PUBLIC AND PRIVATE
INDUSTRY IN PAKISTAN'S MIXED ECONOMY, BUT SAID BASIC
RESOLUTION WOULD HAVE TO WAIT FOR AN ELECTED GOVERNMENT.
HOWEVER KHAN SAID THE INEFFICIENCY WHICH ACCOMPANIED
NATIONALIZATION OF SMALL AGRO BASED INDUSTRIES DEMANDED
IMMEDIATE RESOLUTION AND REITERATED ZIA'S ANNOUNCEMENT
CONCERNING THE DENATIONALIZATION OF FLOUR MILLS WHICH, ALONG
WITH THE PREVIOUSLY ANNOUNCED DENATIONALIZATION OF RICE
HUSKING PLANTS AND NON-OPERATING COTTON GINS, REFLECTS
THE FAILURE OF NATIONALIZATION IN THESE INDUSTRIES. HE
WENT ON TO SAY THAT OTHER HOPED-FOR BENEFITS OF
NATIONALIZATION HAD NOT BEEN REALIZED. CONTINUING IN
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 04 ISLAMA 09016 01 OF 02 041453Z

THIS VEIN, KHAN SET FORTH THE TERMS OF REFERENCE OF
A COMMISSION TO EXAMINE THE PERFORMANCE OF ALL STATE
OWNED ENTERPRISE. (FURTHER DETAILS CONTAINED SEPTEL.)

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 ISLAMA 09016 02 OF 02 041444Z
ACTION NEA-10

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-05 H-01 INR-07
L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15
USIA-06 AID-05 EB-08 TRSE-00 STR-04 OMB-01 CEA-01
COME-00 FRB-03 XMB-02 OPIC-03 LAB-04 SIL-01 IGA-02
AGRE-00 IO-13 OES-07 /111 W
----------103378 041458Z /41
P R 041230Z SEP 77
FM AMEMBASSY ISLAMABAD
TO SECSTATE WASHDC PRIORITY 3686
INFO AMCONSUL KARACHI
AMCONSUL LAHORE
AMCONSUL PESHAWAR POUCH
AMEMBASSY NEW DELHI

LIMITED OFFICIAL USE SECTION 2 OF 2 ISLAMABAD 9016

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

5. GENERAL FISCAL MEASURES: KHAN ACKNOWLEDGED THAT INFLATION RATES CONFUSE INTEREST RATES POLICY BUT STATED THAT PRIVATE SECTOR INVESTMENT WOULD BE ENCOURAGED BY A REDUCTION IN FIXED INVESTMENT LOAN RATES FROM 14 TO 12.5 PERCENT. BANKS WILL BE REQUIRED TO IMPLEMENT THIS POLICY BY REDUCING THEIR SPREAD BETWEEN THE BANK RATE AND THEIR LENDING RATE. (IT REMAINS TO BE SEEN HOW WELL A FURTHER REDUCTION IN INTEREST RATES BELOW EVEN THE RATE OF INFLATION WILL WORK.)

6. KHAN ALSO ANNOUNCED VARIOUS POLICIES DESIGNED TO LIBERALIZE EXPORT CREDIT AND PROMOTE EXPORTS. CERTAIN INTERNAL SALES TAXES AND TRANSIT TAXES ON EXPORT COMMODITIES HAVE BEEN ABOLISHED AND CONCESSIONAL EXPORT FINANCING WILL BE MORE LIBERALLY AVAILABLE.

7. COMMENT: ALTHOUGH A NUMBER OF THE SPECIFICS OF KHAN'S
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 ISLAMA 09016 02 OF 02 041444Z

SPEECH SEEM TO BE THE SAME TYPE OF PROGRAMS SET FORTH IN THE 77 BUDGET, HE CLEARLY TILTED TOWARD THE PRIVATE SECTOR AS PAKISTAN'S HOPE OF PULLING ITSELF OUT OF ITS PRESENT ECONOMIC MALAISE.

8. KHAN WENT ABOUT AS FAR AS AN INTERIM GOVERNMENT CAN GO AND PERHAPS EVEN FURTHER. IT WILL BE SOMETIME BEFORE WE SEE THE REAL EFFECTS OF THESE MEASURE BUT IF NOTHING ELSE WE BELIEVE THE PRIVATE SECTOR MAY GAIN SOME CONFIDENCE IN THE SINCERITY OF THE INTERIM GOVERNMENT TO DO SOMETHING ABOUT THE ECONOMY.
HUMMEL

LIMITED OFFICIAL USE

NNN

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: INTERIM GOVERNMENT, TEXT, ECONOMIC PROGRAMS
Control Number: n/a
Copy: SINGLE
Sent Date: 04-Sep-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977ISLAMA09016
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770321-0470
Format: TEL
From: ISLAMABAD
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770998/aaaademr.tel
Line Count: 207
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: fc36fb4d-c288-dd11-92da-001cc4696bcc
Office: ACTION NEA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 77 ISLAMABAD 8979
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 14-Mar-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 1387626
Secure: OPEN
Status: NATIVE
Subject: INTERIM GOVERNMENT MAKES ECONOMIC POLICY
TAGS: EGEN, EFIN, EAGR, EIND, PK
To: STATE
Type: TE
vdkvgwkey: odbc://SAS/SAS.dbo.SAS_Docs/fc36fb4d-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009